



⁵**ENERGY RISK MANAGEMENT**

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ENERGY MARKET REPORT FOR APRIL 18, 2007

Nigeria's Energy Minister Edmund Daukoru said increasing oil demand may allow OPEC to revise its production quota. He also stated that Nigeria's Forcados oilfield could resume operations by the end of May. Royal Dutch Shell has so far declined to comment on the matter. He said an increase in world oil demand may absorb extra Nigerian supplies, when asked how Nigeria would remain within its 2.04 million bpd production target. He also dismissed concern a change of government following Saturday's presidential election could impact supply contracts. Separately Royal Dutch Shell said it aimed to resume operations at the Forcados oilfields in the next few months.

Market Watch

The Labor Department stated that increasing gasoline prices have cut purchasing power, posing a risk to growth. During the first quarter of the year, gasoline prices increased at a 34.5% annual rate, increasing overall energy costs up by 22.9%. The increase in energy costs accounted for about 41% of the overall increase in the US Consumer Price Index in the first three months of the year. In March, higher energy prices increased the overall Consumer Price Index up 0.6%. The core CPI, excluding food and energy prices, increased by 0.1%.

Environmental groups and an Alaska native organization said they were challenging the US government's decision to allow Royal Dutch Shell to explore for oil off the northern coast of Alaska this summer. They have asked the Interior Department to reverse the Minerals Management Service's approval of Shell's plan to drill up to four exploration wells in the Beaufort Sea this summer. They also filed a motion in federal court, seeking to have the MMS' decision overturned.

The chief economist at the IEA, Fitah Birol said China is expected to become the world's largest emitter of carbon dioxide either this year or next, surpassing the US.

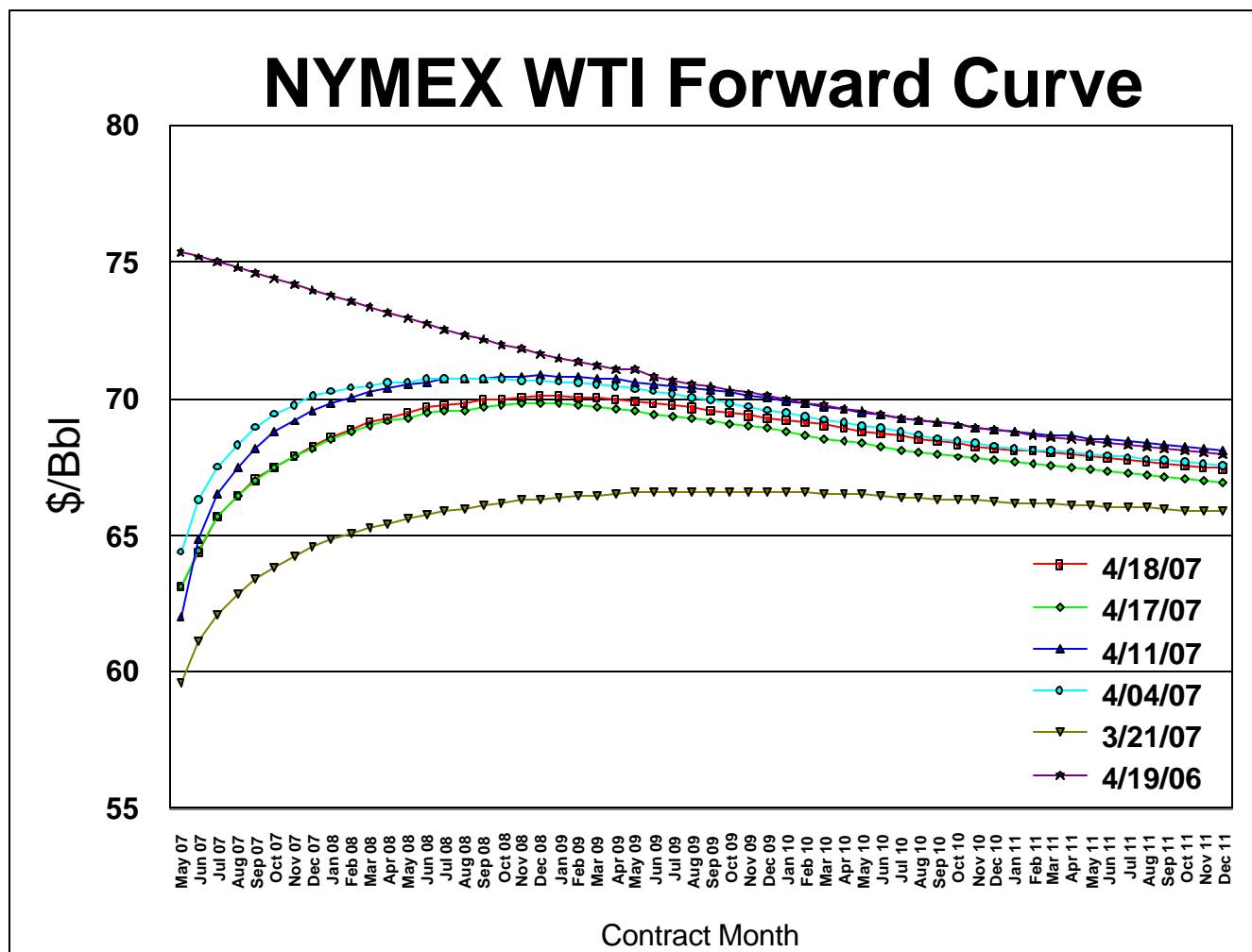
Separately, the US ambassador to the European Union said the US would not join an international regime in cutting emissions of greenhouse gases until the limits are also applied to China and India. The EU agreed to cut emissions by at least 20% by 2020 from 1990 levels and cut emissions by 30% if other industrialized and emerging countries followed suit.

Iran's Oil Minister Kazem Vaziri Hamaneh said the country has not been increasing its oil production as prices firmed. Separately, he dismissed talk he could be replaced as minister and said he had the support of President Mahmoud Ahmadinejad. Some Iranian media reports had suggested he could be moved and cited a dispute concerning management changes at the oil ministry.

According to the UN's IAEA, Iran has started enriching uranium at its underground plant with more than 1,300 centrifuges operating. In a letter to Iranian officials, the IAEA protested an Iranian decision to prevent agency inspectors to visit the country's heavy water facility at Arak that, when built, would produce plutonium.

Iraq's Oil Minister Hussain al-Shahristani said Iraq's cabinet would present an oil law to parliament next week that aimed to lure foreign investment. He also stated that all political blocs in the Iraqi parliament agreed to try to pass the law before the end of May. However the Kurdish Regional Government said it would not sign up to some aspects of the law. Minister of Natural Resources in the Kurdish region said the annexes to the draft oil law that aimed to take oilfields from regional governments and hand them to a newly formed state oil company were unconstitutional. He said Iraq had to revise its draft hydrocarbons law to allow greater competition and investment in its oil and gas industry. Iraq's Oil Minister also stated that under no circumstances would Iraq relinquish its authority and control over its oil and gas resources.

The EIA reported that US crude oil imports fell 11.2% on the month and 8.6% on the year in February to 9.047 million bpd. The majority of the 1.145 million bpd decline in imports came from Saudi Arabia, which cut its supplies to the US by 24% on the month to 1.185 million bpd. Canada was the largest US crude supplier for the 12th consecutive month in February at 1.838 million bpd. Mexico's crude flow to the US fell by 5.4% on the month to 1.358 million bpd while Venezuela's crude flow to the US



increased by 16.8% on the month to 1.115 million bpd.

The API reported that US demand for crude oil and oil products in March increased by 0.6% on the year to 20.826 million bpd. It reported that gasoline demand fell by 74,000 bpd or 0.8% to 9.055 million bpd while distillate demand also fell by 0.3% or 15,000 bpd to 4.466 million bpd. In regards to supply, imports of crude and oil products in March increased by 1.4% to 13.062 million bpd. It also reported that US oil production increased by 1.2% to 5.22 million bpd.

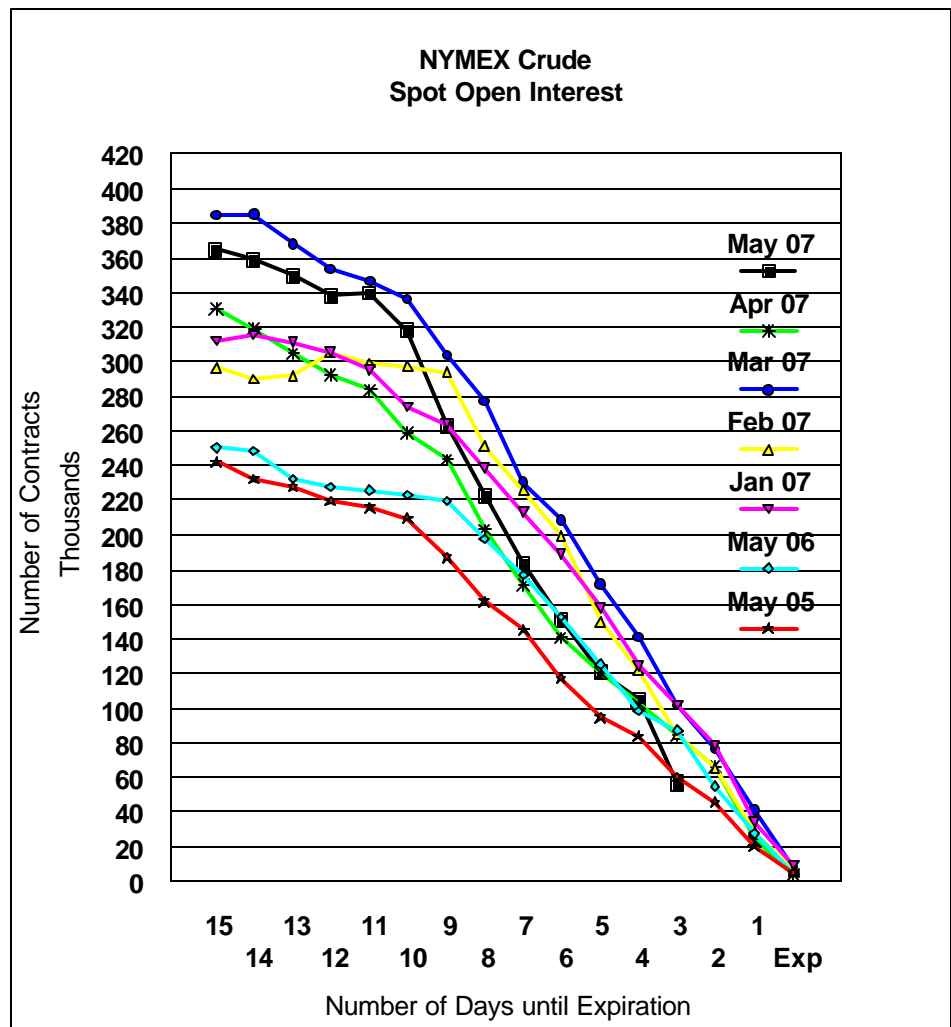
Refinery News

NuStar Energy LP said oil resumed flowing to Valero Energy's McKee refinery after a two month shutdown. The 110,000 bpd pipeline was flowing from Wichita Falls, Texas to McKee in Sunray, Texas at a reduced rate of 25,000-30,000 bpd. The pipeline is expected to reach 70,000-80,000 bpd by the end of the week. The flow of the pipeline was reversed a week after Valero's McKee refinery suffered a fire on February 16, transporting less than 30,000 bpd from the Texas Panhandle to a storage facility at Wichita Falls. The majority of the oil intended for McKee ended up at Cushing, Oklahoma where inventories reached record levels in recent weeks. The McKee refinery began processing crude on Monday and is expected to reach half its capacity of 85,000 bpd by the end of April.

Enbridge Inc said the 490,000 bpd crude pipeline shut following the discovery of a leak on Sunday is scheduled to restart on Wednesday afternoon. Crude had been injected at a storage hub, allowing the southern portion of the pipeline to operate at 40% of capacity.

Citgo reported an emissions problem at its 165,000 bpd refinery in Corpus Christi, Texas on Tuesday. In a report filed with the Texas Commission for Environmental Quality, Citgo said temperatures increased in the No. 1 fluid catalytic cracking unit while catalyst was added. Citgo also shut its No. 4 platformer at its Corpus Christi, Texas refinery for planned maintenance early Wednesday. It did not indicate the duration of the maintenance or whether fuel production would be affected.

Nippon Oil Corp is expected to process 3.9 million kiloliter or 10% less oil in May than a year ago



due to refinery maintenance.

VeraSun Energy Corp said it planned to build an ethanol plant in Reynolds, Indiana. The new plant would produce 110 million gallons of ethanol a year. The plant would increase the company's annual production to 670 million gallons, up from its current capacity of 340 million gallons.

Venezuela's Oil Minister Rafael Ramirez said Venezuela was studying the possibility of selling its stakes in the Chalmette, Louisiana refinery and a delayed coking unit at the Sweeny, Texas refinery.

Energy officials said Turkey would launch an oil pipeline between its Black Sea and Mediterranean coasts next Tuesday with a groundbreaking ceremony at the Ceyhan oil terminal. The pipeline would carry Kazakh and Azeri oil from the Turkish Black Sea port of Samsun to Ceyhan bypassing the Turkish straits. The pipeline, scheduled for completion in 2009, would initially have a capacity of 1 million bpd and increase to 1.5 million bpd.

Production News

According to data provider, IHS, Iraq's oil production could double and reach 4 million bpd in the next five years if the security situation stabilizes. It said pipeline repairs, better reservoir management and infrastructure investment could allow the country to double its oil and gas production, unless violent conflict there escalates further. It estimated that the country has 116 billion barrels of proven and probable oil reserves.

Russian oil exports are expected to increase from both the Black Sea port of Novorossiisk and the Baltic Sea port of Primorsk in May. A preliminary schedule showed that Novorossiisk would load five more cargoes, increasing shipments to a total of 3.8 million tons from 3.3 million tons in April. Primorsk is expected to load two more cargoes or 6.6 million tons in May compared with 6.4 million tons in April.

Venezuela's PDVSA said production at the Corocoro field is expected to start in June or July and reach 25,000 bpd in September. It said that within two or three years, production is expected to reach 70,000 bpd. Separately, PDVSA and Chile's Empresa Nacional de Petroleo signed an agreement to certify oil reserves in block 5 of the Ayacucho area in the Orinoco River basin. It is the first step towards developing the reserves in the Orinoco River basin.

ConocoPhillips CEO James Mulva said Venezuelan officials have not threatened the company with taking over its projects in the Orinoco reserve without compensation. He also stated that talks with Venezuela over issues surrounding expropriation of assets of foreign oil companies would last weeks or months beyond the May 1 deadline. Meanwhile, Venezuela's Oil Minister Rafael Ramirez warned that some foreign oil companies would not be compensated once Venezuela takes over majority ownership. He said Venezuela was still considering different options for compensating the companies, ranging from cash payments in oil to exchanging assets. The value of the projects would be based on companies' formal filings with securities agencies. He also stated that most foreign companies were willing to stay in Venezuela's Orinoco oil reserve after the government takes majority control in the projects.

Mexico's Energy Minister Georgina Kessel said the country would not privatize its energy sector companies but urged lawmakers to start discussing how to increase the country's declining oil production. She said Mexico's main challenge was to reverse stagnating crude production and falling oil reserves.

Industry officials stated that China's fuel oil imports are expected to increase this year. Consumption of fuel oil is expected to be steady this year but import volumes are expected to increase by 4% to 29 million tons. However fuel oil imports are expected to fall from 2008, when most of the country's LNG terminals come onstream. Meanwhile, China's gasoline demand is expected to increase by 7-9% this year to 56-57 million tons while refinery output is expected to increase about 4-5% to 58-58.7 million tons. Overall oil product demand is expected to increase steadily by 6-8% this year.

The Petroleum Association of Japan reported that gasoline stocks increased by 1.1% on the week to 2.27 million kiloliters or 14.26 million barrels in the week ending April 14 while gasoline production increased by 0.9% on the week to 1.11 million kl. It reported that crude stocks fell by 790,000 barrels to 103.17 million barrels while kerosene stocks fell by 150,000 barrels to 12.67 million barrels on the week. Japan's average refinery operating rate fell to 84.2% from 86.6% a week ago.

OPEC's news agency reported that OPEC's basket of crudes fell 94 cents/barrel to \$62.99/barrel on Tuesday from \$63.93/barrel on Monday.

Total said it was working with Iran to reduce mounting costs for a planned liquefied natural gas project and hoped to make a final decision on the investment later this year. It said the cost level was the main hurdle for its planned participation in building Iran's first LNG export terminal, rather than international tension over Iran's nuclear program. The US has urged its allies not to invest in Iran as part of a campaign to force Iran to halt its nuclear program.

Market Commentary

For the first time in four months, June crude oil penetrated the daily trend line that can be drawn off of the January lows. This downward move was short lived with the release of bullish API/DOE numbers. Gasoline reacted the strongest, leading the complex once again. With gasoline stocks currently running 5.5 mln below last year's number and the US on the eve of its summer driving season, the market could experience further gains. As mentioned in our wire of 2 days ago, we were looking for a momentary break in prices. At this point in time, prices should continue to move higher gathering support from slightly bullish fundamentals and technicals. We need to keep in mind the SPR buying program, which is expected in May. We would continue to buy dips in the June contract down to 63.65 with tight stops. The upside objective would be 65.00 initially and then a test of the 66.90 – 67.00 area. Support is set at 63.65, 63.15, 62.70, 62.42, 61.85, 61.65, 61.45 and 6080. Resistance is set at 64.85, 65.08, 65.35, 65.55, 65.95, 66.10, 66.30 and 66.50. As can be seen on the forward crude curve, from cal 09 on back came under pressure and are now at its lowest level since the end of March. We would

look for this pattern to continue and would like to take advantage of buying the front and selling the deferred. Open interest in the crude market fell by a total of

Technical levels		
	Levels	Explanation
CL 63.13, up 3 cents	Resistance 65.08, 65.40, 65.95, 66.50 64.79	Basis trendlines Wednesday's high
	Support 63.65, 63.50 63.24, 63.15, 62.70, 62.56, 62.42	Wednesday's low
	Resistance 182.56, 184.48, 186.39, 187.71 181.60	38% (192.57 and 176.38), 50%, 62%, Previous high Wednesday's high
HO 180.66, up 88 points	Support 179.00, 176.38 176.05, 172.53	Wednesday's low Previous low, Basis trendline
	Resistance 209.77, 212.50, 214.67 208.75	50% (221.34 and 198.20), 62%, Previous high Wednesday's high
	Support 205.25, 203.80, 198.20 197.47	Wednesday's low Basis trendline

NYMEX Petroelum Options Most Active Strikes for April 18, 2007

Symbol	Month	Year	Call/Put	Strike	Exp Date	Settle	Volume	IV
LO	6	7	P	60	05/17/2007	0.61	4,348	30.37
LO	6	7	P	64	05/17/2007	1.87	2,561	28.63
LO	6	7	C	67	05/17/2007	1.04	2,314	28.47
LO	12	7	C	70	11/13/2007	4.68	2,073	27.45
LO	6	7	C	64	05/17/2007	2.25	2,026	28.67
LO	2	8	P	50	01/16/2008	0.77	2,002	30.28
LO	9	7	P	68	08/16/2007	4.61	2,000	27.45
LO	12	7	P	66.5	11/13/2007	4.55	2,000	27.62
LO	12	9	C	70	11/17/2009	7.83	1,950	22.41
LO	6	7	P	56	05/17/2007	0.16	1,852	32.87
LO	6	7	P	61	05/17/2007	0.82	1,813	29.75
LO	6	7	P	57	05/17/2007	0.23	1,803	32.29
LO	12	7	C	90	11/13/2007	0.66	1,750	27.43
LO	7	7	P	63	06/15/2007	1.73	1,660	28.40
LO	6	7	C	75	05/17/2007	0.12	1,604	32.22
LO	9	7	P	60	08/16/2007	1.47	1,325	28.31
LO	6	7	P	51	05/17/2007	0.02	1,300	35.68
LO	6	7	P	62	05/17/2007	1.09	1,197	29.19
LO	6	8	P	50	05/15/2008	1.05	1,150	28.54
LO	6	7	P	55	05/17/2007	0.11	1,050	33.48
LO	12	7	P	55	11/13/2007	1.14	1,050	29.41
LO	6	7	C	66.5	05/17/2007	1.2	1,024	28.54
OB	6	7	C	2.15	05/25/2007	0.0673	1,218	39.34
OB	8	7	C	2.75	07/26/2007	0.0154	1,000	39.76
OB	7	7	C	2	06/26/2007	0.1444	891	34.38
OB	7	7	C	2.25	06/26/2007	0.0535	816	35.22
OB	6	7	C	2.1	05/25/2007	0.0854	765	38.95
OB	7	7	C	2.5	06/26/2007	0.0189	730	37.18
OB	10	7	P	1.6	09/25/2007	0.0455	525	31.65
OB	5	7	P	2	04/25/2007	0.0195	514	44.91
OB	5	7	C	2.25	04/25/2007	0.0074	500	45.68
OB	7	7	C	2.45	06/26/2007	0.0233	500	36.76
OB	7	7	C	2.3	06/26/2007	0.0436	323	35.61
OB	6	7	C	2.25	05/25/2007	0.0407	277	40.14
OB	9	7	C	2.15	08/28/2007	0.0968	262	32.92
OB	9	7	C	2.14	08/28/2007	0.0996	220	32.84
OB	9	7	C	2.08	08/28/2007	0.1178	220	32.26
OB	6	7	P	1.6	05/25/2007	0.0035	212	43.99
OB	5	7	C	2.2	04/25/2007	0.0141	207	45.07
OB	7	7	C	2.35	06/26/2007	0.0354	201	35.99
OB	6	7	C	2.34	05/25/2007	0.0252	200	40.84
OB	12	7	P	1.5	11/27/2007	0.0532	200	31.92
OH	7	7	C	2.1	06/26/2007	0.02	500	30.07
OH	6	7	C	1.95	05/25/2007	0.0267	200	32.18
OH	5	7	C	1.8	04/25/2007	0.0407	100	37.53
OH	12	7	C	2	11/27/2007	0.1544	100	28.47

38,130 lots, with open interest in the May contract falling by 48,232 lots ahead of its expiration on Friday.

Meanwhile, the product markets are also expected to continue retracing its recent losses after the markets erased their early losses and ended near their highs. The RBOB market settled up 2.75 cents at 208.33 after it sold off in light of the DOE report showing an increase in refinery runs to over 90%. The RBOB market, which later retraced more than 38% of its move from a high of 221.34 to today's low of 198.20 as it rallied to a high of 208.75, is seen finding some resistance at 209.77 followed by 212.50. Despite the market's sharp sell off early in the session the market was able to hold support above its trendline, which on Thursday will be at 197.47.